

MANAGEMENT LETTER

December 19, 2003

CONFIDENTIAL

Mr. Otto J. Wolff
Chief Financial Officer and Assistant Secretary for Administration
U.S. Department of Commerce
14th and Constitution Avenue, N.W.
Washington, D.C. 20230

Dear Mr. Wolff:

We have audited the consolidated financial statements of the Department of Commerce (Department) as of and for the years ended September 30, 2003 and 2002, and have issued our report thereon dated December 5, 2003. In planning and performing our audits of the Department's consolidated financial statements, we considered the Department's internal control over financial reporting, in order to determine our auditing procedures for the purpose of expressing an opinion on the consolidated financial statements. An audit does not include examining the effectiveness of internal control, and does not provide assurance on internal control over financial reporting.

During our fiscal year 2003 audit of the Department's consolidated financial statements, we noted one matter involving internal control over financial reporting and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. In our *Independent Auditors' Report*, dated December 5, 2003, we reported that we consider the Department's financial management systems to be a reportable condition, but that we do not consider this area to be a material weakness. Details of our financial management systems findings were reported to the Department in a separate letter.

Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls, that in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the consolidated financial statements. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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Our audit procedures were designed primarily to enable us to form an opinion, based on our audit and the reports of other auditors, on the Department's consolidated financial statements, and therefore, may not bring to light all weaknesses in policies or procedures that exist. However, we also take this opportunity to share our knowledge of the Department, gained during our work, to make comments and suggestions that we hope can be useful to you.

Although not considered to be reportable conditions, we noted certain matters involving internal controls and other operational matters, which are presented in Exhibits A through G, attached, for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the Department's internal controls or result in other operating efficiencies. Each exhibit presents the status of prior year management letter comments. We have not considered the Department's internal controls since the date of our report.

We appreciate the courteous and professional assistance that the Department's personnel extended to us to complete our audit timely. We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the Department's management and the Department's Office of Inspector General and is not intended to be and should not be used by anyone other than these specified parties.

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**U.S. Department of Commerce
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Departmental Level**

Certain Operational and Accounting Handbooks Should be Updated

As the Department of Commerce (Department or Commerce) continues with (1) the Department-wide full implementation of the Department's financial system, Commerce Administrative Management System (CAMS), and the Sunflower property system; (2) use of the U.S. Department of Treasury's grant-related system, Automated Standard Application for Payments (ASAP); (3) submission of comparative quarterly financial statements to the Office of Management and Budget (OMB) in fiscal year (FY) 2003; and (4) preparing for OMB's accelerated due dates for the FY 2004 performance and accountability reporting, the Department's Office of Financial Management (OFM) should review the Department's existing operational and accounting handbooks, to ensure that the daily activities of its employees are in line with the current, and increasing, reporting requirements.

Although some of our comments are based on the bureau-level handbooks, manuals, or directives that we observed during our detailed test work, most manuals need to be addressed at the Department-wide level, to ensure that the information that is required at the Department level is provided in a consistent format and within the timeframes outlined in the Department's *Financial Statement Guidance*, that is updated annually.

Specifically, some of the handbooks, manuals, or directives that we found could be improved are as follows:

- During our review of budget procedures, we noted that there are manual procedures in place that are not taking advantage of CAMS functional capabilities. The budget handbooks or manuals were developed prior to the implementation of the CAMS budget module; therefore, the handbooks or manuals should be reviewed and updated at the Department level to be consistent with CAMS budget module user manuals.
- During our review of property, and as noted in the FY 2001 management letter, we noted that the Department's *Personal Property Management Manual* requires that "Property accountability records be reconciled periodically with the financial control accounts in accordance with procedures established by servicing financial accounting activities." However, the term "periodically" is not defined in terms of time periods, such as monthly or quarterly. Thus, the individual bureaus interpret the interval to complete property reconciliations differently. Additionally, we noted that the reconciliation procedures are not specific enough to provide for consistent control.
- During our review of grants at several bureaus, we noted that grant files were "periodically" or "annually" reviewed, resulting in missing documentation at a specific point in time without adequate follow-up or timely close out of grant files (see separate bureau-level exhibits). Similar to the property manual, the term "periodically" or "annually" is interpreted differently across the Department.
- During our review of the *Federal Managers' Financial Integrity Act* (FMFIA), we noted that the Department-level directive is outdated, and the bureaus interpreted the self-assessment requirements differently. This matter is discussed further in the separate comment, below.

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Recommendation:

1. We recommend that the Department's OFM coordinate with all bureaus to review existing operational and accounting handbooks, manuals, and directives, to ensure that the daily activities of its employees are in line with the current, and increasing, reporting requirements and Department-wide implementation of CAMS.

Federal Managers' Financial Integrity Act (FMFIA) Oversight Should be Improved

FMFIA states that by December 31, 1983, and by December 31 of each succeeding year, the head of each executive agency [*Department*] shall, on the basis of an evaluation conducted in accordance with guidelines prescribed under paragraph (2) of this subsection, prepare a statement that:

- The Department's systems of internal accounting and administrative control fully comply with the requirements of paragraph (1); or
- Such systems do not fully comply with such requirements.

As noted in the prior year, although the Department and its bureaus conduct a self-assessment of "systems" related to internal accounting and administrative control, all of the bureaus do not have a consistent interpretation of the word "systems" as it applies to the FMFIA. Congressional intent for this act was not limited to information technology (IT) systems, but is intended for agencies to include in their self-assessments a review of the "methods" of internal accounting and administrative controls.

Based on our limited review, we found that:

- Overall, some of the bureaus perform self-assessments of certain programs activities, but limited or no formal self-assessments were made for internal accounting and administrative controls beyond findings noted by the General Accounting Office, Commerce Office of Inspector General, or independent auditors. However, in September 2003 and November 2003, the Department held meetings with bureau representatives to discuss procedures and concerns related to reimbursable activities and cost allocation.
- The National Oceanic and Atmospheric Administration (NOAA) has an office, Audit, Internal Control, and Information Management Office (AICIMO), that appears to address the Act, as intended. This office maintains a robust Internet site, which documents extensive internal control evaluations (both manual and IT).
- The Bureau of the Census (Census) has an Administrative Manual, Chapter F22, Accounting/Financial Management *Systems Reviews* dated January 29, 1991, which focuses on "systems" (that is, software applications and hardware that support financial and operational activities). In addition to the system reviews performed according to this manual, Census prepares corrective action plans for both IT and non-IT audit recommendations.

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Census management advised us that they did not believe that any other matters, beyond prior year audit findings, warranted inclusion in its FMFIA submission. We were not provided documentation of any internal assessments that Census may have preformed over its non-IT accounting and administrative controls, in order to make the assertion that no other matters, beyond the prior year audit findings, should be reported under FMFIA.

- The National Institute of Standards and Technology (NIST) and others perform a self-assessment based on the U.S. General Accounting Office (GAO) guidance, *Checklist for Reviewing Systems under the Federal Financial Management Improvement Act*. This checklist focuses on IT systems only. In addition to the checklist, these bureaus provide corrective action plans to the Department's OIG for review. However, these plans only address audit findings. Therefore, it appears that these reviews do not address the non-IT system controls.

The Department's directive dated October 22, 1988 defines internal control system as, "All formal measures taken and actions prescribed by management to establish operations which fully meet programmatic or administrative responsibilities. Each level of management participates in developing a system of control, which provides reasonable assurance that program and administrative activities are carried out effectively. Internal control measures or actions:

- Define what should be done (manuals, directives, desk procedures, etc.);
- Monitor operations as they occur (supervision, use of checklists, computer edits, etc.); and
- Establish feedback sources on operation (quality assurance reports, client input, financial reports, etc.).

Based on our limited review, it does not appear that all bureaus have followed the Department's guidance, including defined roles and responsibilities and consistently including all internal control systems (both manual and IT) within the review.

Recommendations:

We recommend that the Department:

2. Take a more proactive role in coordinating the annual FMFIA self-assessments and ensuring that the intent of the Act is followed; and
3. Review and revise the Departmental directive to assist the bureaus with the timing, extent, and performance of the self-assessments.

Reviews over Performance Measures Should be Improved

During our test work over performance measures, we noted the following matters for 3 out of 15 measures tested.

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- The FY 2003 actual number for ITA's measure 3c, *Number of Market Access and Compliance Cases Initiated*, was incorrectly reported in the Performance and Accountability Report as 161. The actual number should be 144.
- The FY 2003 actual number for Bureau of Economics and Analysis' (BEA) measure 1g, *Upgrading Information Technology System*, was incorrectly reported in the Performance and Accountability Report as 96 out of 99. The actual number should be 95 out of 98.
- The FY 2002 actual number for NIST's measure 5b, *Number of Baldrige Criteria Mailed by BNQP and by Baldrige-Based State and Local Quality Programs*, was incorrectly reported in the Performance and Accountability Report as 149,477. The actual number should be 124,757.

Recommendation:

We recommend that:

4. ITA, NIST, and BEA work with the Office of Management and Organization (OMO) to develop and implement a formal review process to ensure that the performance measures results reported to OMO for the Performance and Accountability Report are accurate.

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Status of Prior Year Management Letter Comments
Departmental Level**

Comment Number	Reported Comment	KPMG's Recommendation	KPMG Assessment of Current Status
02-01	Intra-governmental Balance Reconciliation Results Should be Improved	The Department's OFM should continue to work closely with the Intra-governmental Eliminations Task Force, to develop policies and procedures that will assist the Department in reconciling intra-governmental transactions with its trading partners.	Completed.
01-09; 02-02	Certain Operational and Accounting Handbooks Should be Updated	The Department's OFM should coordinate with all bureaus to review existing operational and accounting handbooks, manuals, and directives, to ensure that the daily activities of its employees are in line with the current, and increasing, reporting requirements and Department-wide implementation of CAMS.	Ongoing (see comments in Exhibit A).
02-03	Federal Managers' Financial Integrity Act Oversight Should be Improved	The Department should take a more proactive role in coordinating the annual FMFIA self-assessments and ensuring that the intent of the Act is followed; and review and revise the Departmental directive to assist the bureaus with the timing, extent, and performance of the self-assessments.	Ongoing (see comments in Exhibit A).

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Comment Number	Reported Comment	KPMG's Recommendation	KPMG Assessment of Current Status
02-04	Analyses of Net Position Should be Improved	The Department should perform net position analyses by fund group quarterly, at a minimum, to ensure that the proper balances are reflected in Unexpended Appropriations and Cumulative Results of Operations.	Completed.

Key to Report References:

- 01-XX KPMG's Management Letter, issued in conjunction with the Department's September 30, 2001 consolidated financial statements.
- 02-XX KPMG's Management Letter, issued in conjunction with the Department's September 30, 2002 consolidated financial statements.

**U.S. Department of Commerce
FY 2003 Management Letter Comments for the
National Oceanic and Atmospheric Administration**

Accounting for Construction Work-in-Progress (CWIP) Should be Improved

The National Oceanic and Atmospheric Administration (NOAA) has made improvements in its accounting for CWIP in FY 2003; however, we continued to identify exceptions in this area. Specifically, we noted the following:

- 2 out of 30 CWIP reconciliations tested had differences that were not adjusted during interim testing, and again during our final testing. The thorough reconciliation of activity manager records to the CWIP subsidiary ledger (e.g., the CA500D report) is an important internal control over the accounting for CWIP.
- NOAA did not prepare reconciliations for two CWIP projects that represented Grants OnLine activity. Although NOAA determined that this activity did not meet the definition of CWIP, because it related to development of requirements and not actual construction of property, the associated costs were not removed from the CWIP account, (i.e., the CA500D Report) at September 30, 2003.
- 17 CWIP project codes tested had negative uncapitalized cost balances at September 30, 2003, amounting to approximately \$1.2 million. We notified NOAA of the negative balance problem as of June 30, 2003, but adjustments were not made. In certain cases, the negative balances represent under-capitalized costs; while others represent incorrect transfers to completed property.
- Although the refurbishment of a vessel, the Nancy Foster, was completed in November 2002, the related CWIP project, approximately \$17 million, was not closed and transferred to completed property as of June 30, 2003.

Differences related to the first three findings above, were not considered material for adjustment purposes. An adjustment was made for the fourth finding.

Recommendations:

We continue to recommend that the NOAA Finance Office and the appropriate CWIP activity managers:

1. Verify the valuation of the CWIP balances in the CA500D Report, by ensuring that all adjustments identified quarterly and at year-end are posted timely by the NOAA Finance Office.

We also recommend that the CWIP activity managers:

2. Transfer costs of CWIP projects immediately to personal property once a constructed property item is placed into service. If the CWIP activity manager requires time to close the CWIP contracts, a preliminary Form 37-6 should be submitted to the Personal Property Office. A final Form 37-6 should be completed once all contracts are closed and finalized, and any cost adjustment should be recorded.

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3. Ensure that reconciliations are prepared for all CWIP projects, and adjustments posted to remove any CWIP balances that are not related to the construction of property.
4. Ensure that all uncapitalized negative cost balances are identified and adjusted, timely.

Controls over Deferred Maintenance Should be Improved

During our test work over deferred maintenance, we noted two projects that were removed from the overall deferred maintenance listing in fiscal year 2003 even though the projects were not completed. Projects should only be removed from the deferred maintenance listing when the maintenance has been performed and is completed. As a result, the deferred maintenance disclosure for NOAA is understated in the Department's consolidated financial statements.

Recommendation:

5. We recommend that the NOAA Real Property Office perform periodic reviews of the deferred maintenance listings to ensure that the project listings are complete.

Controls over Personal Property Should be Improved

During our test work over personal property, we noted the following:

- 2 out of 19 personal property fiscal year 2003 transactions tested were not recorded in the property system, timely. For both items, the Personal Property Office was unable to process the transactions until the supporting documentation was received from the respective line office. One item was not processed until seven months after the date of acceptance, and the second item was processed four years after the date of acceptance.
- A vessel, the Oscar Elton Sette, with an acquisition cost of over \$14 million was capitalized when its refurbishment was completed in fiscal year 2003. This vessel was originally acquired by NOAA in June 1992, through a transfer from the U.S. Navy. We also noted another vessel that was transferred by the U.S. Coast Guard to NOAA several years ago, that was not capitalized until fiscal year 2003. NOAA does not have a procedure to ensure that vessels or other property items transferred from federal entities to line offices are reported to the Personal Property Office and are recorded in a timely manner. In addition, as of June 2003, we noted that nearly \$12 million in related refurbishment costs remained in CWIP, but should have been transferred to the completed property accounts.
- We noted an unreconciled procurement request item that represented the purchase of a vessel that was not fully capitalized in fiscal year 2003 although the property item was accepted and received in August 2003. As a result, personal property is understated by approximately \$630,000.
- 1 personal property item, related to the GOES-12 satellite, amounting to over \$5 million, was improperly recorded as a prior period adjustment in the June 30, 2003, financial statements, but it represented only a transfer between two components of the personal property account.

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Appropriate financial statement adjustments were made for all of the significant findings noted above.

Recommendations:

We recommend that the NOAA Personal Property Office and Finance Office:

6. Work with the respective line offices to ensure information is submitted to the Personal Property Office for recording, in a timely basis.
7. Ensure that all capitalizable property transferred in to NOAA is recorded as an asset when title passes to NOAA.
8. Ensure that all unreconciled procurement requests are reviewed at fiscal year end for any capitalizable property items not properly recorded.

We also recommend that the NOAA Personal Property Office:

9. Perform manual review procedures to ensure that all prior period adjustments represent valid adjustments to the prior year balances, and that the property roll-forwards are subjected to supervisory review.

Personal Property Lease Accounting Should be Strengthened

During our test work over personal property leases for fiscal year 2003, we noted that the NOAA Procurement Office revised various Lease Determination Worksheets (worksheets). These revisions were due to upgrades and additions identified, and other changes to the leases, based on NOAA's detailed review of the supporting contracts.

We reviewed the worksheets for the eight capital leases, and the eight operating leases that represented the entire population of new and revised personal property leases in fiscal year 2003, and noted the following:

- 1 worksheet prepared in August 2000 classified the respective leased property item as an "Other Major Asset" which had a ten year useful life. In December 2002, NOAA Procurement properly reclassified the leased asset as an "ADP Equipment Major Class" with an eight year useful life. However, the information was not entered into Sunflower until April 2003, at which point the depreciation calculation was modified on a forward basis only. Therefore, depreciation was improperly stated until the correction was made.
- 1 worksheet was prepared on June 27, 2003, although the leased asset was accepted on November 1, 2002.

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- The Sunflower system currently has a limitation where if the acquisition cost or other information is subsequently modified, the related accumulated depreciation is not directly adjusted. The system treats the cost change on a proactive basis, which misstates the accumulated depreciation balance. The Personal Property Office must then manually adjust the accumulated depreciation balance. The difference between the accumulated depreciation balance at September 30, 2003 and the balance computed manually by the Personal Property Office was considered immaterial for adjustment.
- The Raytheon leases, six in total, were modified during fiscal year 2003 due to certain components being misclassified or upgrades not properly accounted for in the lease's payment stream. Based on a detailed contract review, these components should have been classified as purchased assets at the start of the lease versus leased assets. These leases were initiated during fiscal year 2001 and were also modified during fiscal year 2002 based on a detailed review by NOAA's Procurement Office. Adjustments were recorded for both reviews.
- 1 operating lease was extended at September 30, 2003, which changed the classification to a capital lease. With this reclassification, the Personal Property Office properly recorded the capital lease liability, but failed to record the corresponding capital asset. The net book value of the capital asset at September 30, 2003, the date the extension became effective, was approximately \$1 million, which was subsequently recorded as an audit adjustment for financial statement purposes.
- 1 capital lease was signed in September 2003, but did not have a start date until October 1, 2003, and NOAA did not accept the property item until FY 2004. Therefore, the lease should not have been recorded at September 30, 2003. Although the capital asset was properly not recorded by NOAA at September 30, 2003, NOAA improperly recorded a capital lease liability as of September 30, 2003. The difference was considered immaterial for adjustment.
- The Personal Property General Services Administration (GSA) rent projections included within the footnote disclosures to the financial statements were not updated to reflect the current year GSA rent payments. The disclosures were subsequently changed by NOAA to reflect the correct balances.

We also noted that the September 30, 2003, audited balance of personal property capital lease accumulated depreciation did not agree to the general ledger. The difference of approximately \$1.2 million was subsequently recorded as an audit adjustment.

Recommendations:

We continue to recommend that the NOAA Personal Property Office and the Procurement Office:

10. Work with the Finance Office to improve the timely communication of changes to operating and capital leases, as well as to ensure that new leases are evaluated and recorded timely.

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This is especially important because the Sunflower system computes depreciation using the information input into the system.

11. Work together to improve the controls over accounting for personal property leases. These controls should include periodic reviews to ensure the controls are operating and that all new leases are properly accounted for and that all changes to leases are timely communicated.
12. Ensure that all financial statement footnote disclosures are updated to reflect current future payment estimates.

We recommend that the NOAA Procurement Office:

13. Place a notation on the revised worksheet stating when the worksheet was revised, why it was revised, and attach supporting documentation for the change.
14. Ensure that the preparer of the worksheet understands all aspects of the contract as well as the information needed to determine the proper classification of the lease as capital or operating.

We recommend that the NOAA Personal Property Office:

15. Ensure that the Sunflower System is adequately modified to correct the accumulated depreciation limitation as soon as possible. Manual computations will be needed for accumulated depreciation until the system modifications are implemented.
16. Provide updated capital lease roll forward information to the NOAA Finance Office in a timely manner to ensure the information in the general ledger is properly stated.

Environmental Liability Controls Should be Improved

During our test work over environmental liabilities, we noted that NOAA did not initially record approximately \$9 million of additional costs related to the Pribilof Island environmental clean up project as of September 30, 2003, representing the costs that NOAA's Environmental Compliance, Health, and Safety Office estimates it will incur from FY 2006 to FY 2028, the year NOAA completes its monitoring requirements. In addition, we believe that due to the overall uncertainty inherent in this project, a 20% contingency should be included in the Pribilof Island estimate. NOAA's Finance Office subsequently recorded this adjustment.

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National Oceanic and Atmospheric Administration, Continued**

Recommendations:

We recommend that the NOAA Environmental Compliance, Health, and Safety Office:

17. Ensure that all costs expected to be incurred to complete environmental liabilities are properly identified and recorded in the financial statements.
18. Ensure that all costs under an environmental project are identified and captured, even when the costs will be incurred by different offices. Communication should be maintained between the various offices involved in the cost estimate to ensure that all costs are captured, and responsibilities are clearly defined. A central point of contact should be appointed to ensure all costs are identified and captured, NOAA-wide.

Accounting for Grant Advances and Payables Should be Improved

During our test work over NOAA's grants management process, we noted the following:

- 1 of 5 expired grants selected for testwork was not closed although it was expired for more than 180 days. At September 30, 2003, the grantee had not submitted Form SF-269, and there was no evidence of the Grants Management Division's (GMD) attempt to obtain this report.
- 1 of 30 active grants selected for testwork was not closed out during the year, although the necessary documentation had been received from the grantee. This grant was included as an active FY 2003 grant because NOAA's Finance Office had not been notified by the GMD to deobligate the remaining funds. There was no financial activity by this grantee after the grant expired in March 2002.
- 1 of 30 active grant files reviewed did not contain the Certification of Progress Report in the file and there was no evidence of GMD's attempt to obtain this report.
- 3 of 30 active grants tested had a discrepancy between the grant end date in NOAA's Grant System (NGS) and the grant end date on the CD-450.
- 4 of 30 organizations tested for which NOAA has oversight responsibilities, the Office of Management and Budget (OMB) Circular A-133 audit reports for fiscal year 2001 were not submitted to the Federal Audit Clearinghouse within nine months after the end of the audit period. The GMD did not send the required follow-up letters for these delinquent reports until June 2003.

Recommendations:

We recommend that the NOAA GMD:

19. Establish timelines for its staff to request closeout documentation on expired grants.

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20. Develop a consistent method of identifying expired grants and enforce timely administrative closeout of these grants to ensure that all remaining funds are deobligated.
21. Implement adequate procedures to monitor grants in order to ensure that all reports are received from grantees, timely.
22. Establish an internal review process so that when data is entered into NOAA's Grant System, a supervisor systematically reviews it.
23. Implement procedures to ensure that grantees submit their OMB Circular A-133 audit reports, timely. In cases where the Single Audit report was not submitted to the Federal Audit Clearinghouse database, NOAA's GMD should obtain it directly from the grantees. If the grantee has not completed its Single Audit and GMD decides to issue the grant award, the award document should include a special condition to inform the grantee that the report must be submitted within a specified time, or the funding will be placed in a "HOLD" status.

Controls over Real Property Transactions Should Be Improved

During our testwork over real property transactions, we identified the following:

- 1 of 3 deletions tested, should have been recorded in October 2001, rather than in fiscal year 2003. The NOAA Real Property Office did not receive the supporting information in a timely basis from the respective line office. No adjustment was made due to immateriality.
- 1 of 2 additions tested did not have a Form 37-6, *Report of Property Constructed*, in the property file that was signed by the Property Officer. The signature was obtained after we selected the sample item. The Form 37-6 is required to be submitted before the property item is transferred from CWIP to Real Property. While the related building was entered into the real property system, because Form 37-6 was not submitted, the CWIP balance was not reduced, causing a \$3.3 million overstatement, that was subsequently adjusted.
- The summary rollforward prepared by the Financial Reporting Division did not agree to the real property roll forward prepared by the Real Property Office. The differences, subsequently recorded by the NOAA Finance Office, increased acquisition cost by approximately \$4 million and accumulated depreciation by approximately \$1.7 million.
- A fiscal year 2003 lease extension tested was improperly recorded as an extension to a capital lease, when it should have been recorded as a separate operating lease. No adjustment was made due to immateriality.
- The September 30, 2003, audited balance of the real property capital lease liability did not agree to the general ledger. The difference of approximately \$350,000 was subsequently recorded as an audit adjustment.

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FY 2003 Management Letter Comments for the
National Oceanic and Atmospheric Administration, Continued**

Recommendations:

We recommend that the NOAA Real Property Office:

24. Ensure that all information is timely communicated from the line offices to the Real Property Administrative Support Centers and Headquarters Real Property Offices to ensure accurate accounting.
25. Coordinate efforts with the NOAA Financial Reporting Branch to ensure that all updated information is accurately prepared for the real property roll forward and the information in the general ledger is properly stated.
26. Ensure that all certifications are timely performed on the Form 37-6, and that all information is received by the Finance Office timely, to ensure accurate accounting for completed property projects.
27. Perform periodic reviews of all real property capital and operating leases to ensure all activity is properly recorded.

Accounting for Operating Materials and Supplies Allowance Should be Strengthened

During our testwork over the allowance for excess, obsolete, and unserviceable items for operating materials and supplies that are managed by the National Weather Services (NWS) Logistics Office and the National Reconditioning Center (NRC), we noted an inconsistency in the application of the decommissioning reserve methodology. NWS applied the reserve at a “system level”, e.g., NEXRAD system, and the NRC applied it at a “subsystem level”, e.g. NEXRAD Principal User Processor. Although both the NWS Logistics Office and the NRC informed us that they use the same methodology, applying the methodology at different levels results in inconsistencies. The decommissioning reserve that the NWS Logistics Office manages for the National Logistics Support Center was understated by approximately \$3 million at September 30, 2003.

Recommendation:

28. We recommend that NOAA’s National Weather Service review the obsolescence reserve methodology and ensure it is consistently applied at the NLSC and NRC at a “subsystem level” which results in a more precise estimate of the decommissioning reserve.

**U.S. Department of Commerce
FY 2003 Management Letter Comments for the
National Oceanic and Atmospheric Administration, Continued**

Procedures for Aging Receivables Should be Reviewed

NOAA's procedures for aging receivables should be reviewed to ensure that adequate reports are generated from CAMS and available for use by decision makers. During fiscal year 2003, NOAA used two different aging reports, GLD 171B generated from the general ledger and the AR105 generated from the AR Module. The Financial Statements Branch used the GLD 171B report to determine the allowance for losses against receivables, and the Accounts Receivable Branch used the AR105 aging report to prepare the quarterly Treasury Report on Receivables (TROR) report of debts due from the public.

During our audit, we noted that accounts receivables were not aged properly and both aging reports described above included several credit amounts, as collections or other credit adjustments were not recorded in the same categories as the related receivable balances. We also noted an unreconciled difference of approximately \$2.9 million between the GLD 171B and the general ledger as of September 30, 2003.

Further, on the AR105 aging report, we noted that the sum of the amounts reported in the aging columns did not agree with the balances reported in the total amount due column. For example, for Fund 08 - Direct Loans Financing Fund, source LNSUBS, the total amount due column was approximately \$850,000 less than the sum of the aging categories. As a result, the Accounts Receivable Branch had to manually adjust the aging analysis prior to submission of the TROR report.

Recommendations:

We recommend that:

29. The General Ledger Branch and Accounts Receivable Branch work closely with the CAMS Office to further enhance the accounts receivable module to ensure that balances are aged properly.
30. NOAA's Finance Office should periodically review the aging report, and (1) take corrective action on delinquent accounts, and (2) adjust the allowance for uncollectible account provision.

Accounting for Supplementary Stewardship Reporting Should be Strengthened

During our test work over supplementary stewardship reporting, we noted the following matters affecting disclosures for stewardship investments and heritage assets.

Stewardship Investments - NOAA does not report performance outcomes and measures for its stewardship investments (e.g., human capital, and research and development program), as required by Statements of Federal Financial Accounting Standards (SFFAS) Number 8,

**U.S. Department of Commerce
FY 2003 Management Letter Comments for the
National Oceanic and Atmospheric Administration, Continued**

Supplementary Stewardship Reporting. In addition, we noted that NOAA reports its stewardship investments based on obligation data, rather than expenses.

SFFAS No. 8 indicates, “By no later than the third year after the effective date of this standard, managers of the investment program should be able to provide information on the outcomes for the programs for which the investments are reported. If outcome data are not available, output data that best provide indication of the intended program outcomes shall be used to justify continued treatment of expenses as investments until outcome data are available.” SFFAS No. 8 also indicates that investment data should be based on the same basis of accounting as the financial statements.

Heritage Assets – We noted differences between NOAA’s reported balance of heritage assets and the Personal Property Office’s inventory listing of heritage assets. We were told that the Personal Property Office completed the reported heritage asset disclosures using actual inventory counts performed by the stewards. However, the NOAA Financial Reporting Division compiled the balance used in the financial statements from information forms prepared by the NOAA Personal Property Office and Line Offices. The financial statement disclosure has since been corrected.

Recommendations:

We continue to recommend that:

31. NOAA’s Deputy Chief Financial Officer initiate procedures to report performance outcomes and measures for its stewardship investments. This includes identifying the performance outcomes and measures, and requiring the respective departments to gather the information necessary to report this information for the FY 2004 financial statements.
32. NOAA’s Personal Property Office ensure that heritage property information provided to the Financial Reporting Division is complete and accurate; and the year-end reporting process is properly coordinated.

**U.S. Department of Commerce
Status of Prior Year Management Letter Comments
National Oceanic and Atmospheric Administration**

Comment Number	Reported Comment	KPMG's Recommendation	KPMG Assessment of Current Status
96-03, 00-06, 01-05, 02-12	Interagency Agreements Are Not Supported or Are Improperly Classified / Interagency agreement Policies and Procedures Should be Followed	Review each reimbursable agreement to ensure all agreements are properly classified and accruals are proper; and, implement internal controls to prevent reimbursable task overruns.	Completed.
99-01, 00-01, 01-01, 02-09	Cost Allocation Over and Under Applications Should be Reviewed.	Enforce the <i>Updated Budget Policy and Procedures on the Interim Indirect Costs Process</i> directives, to ensure that all overhead application rates are reflective of actual operations, and document the rationale for rates that are based on judgmental assessments.	Completed.
00-02, 01-07, 02-07	Personal Property Adjustment Monitoring Should be Strengthened	Perform manual review procedures to ensure that all prior period adjustments represent valid adjustments to the prior year balances, and that the property roll-forwards are subjected to supervisory review	Open (see comments in Exhibit B).

**U.S. Department of Commerce
Status of Prior Year Management Letter Comments, Continued
National Oceanic and Atmospheric Administration**

Comment Number	Reported Comment	KPMG's Recommendation	KPMG Assessment of Current Status
00-05, 01-09, 02-08	Personal Property Lease Accounting Should be Strengthened	Perform a thorough review of all new capital and operating leases during the year, to ensure that the leases are properly classified and recorded in the financial statements, and work with the Procurement Office to improve the controls over accounting for personal property leases. Ensure that all Lease Determination Worksheets are completed and reviewed by personnel knowledgeable of lease accounting, and that copies of contracts and other supporting documentation is obtained by the reviewer, for use in the review.	Open (see comments in Exhibit B).
01-02, 02-11	Accounting for Grant Advances and Grant Payables Should be Improved	Ensure that funds are timely de-obligated for closed and expired grants, as well as perform a year-end review to ensure that all funds have been properly de-obligated.	Open (see comments in Exhibit B).
01-08, 02-06	Controls Over Personal Property Should be Improved	Establish procedures to reconcile the property balances between Sunflower and the general ledger, on at least a quarterly basis, to ensure that balances are continually reviewed and any differences immediately investigated and resolved; and, reconcile all information entered into the Sunflower system with supporting documentation.	Open (see comments in Exhibit B).

U.S. Department of Commerce
Status of Prior Year Management Letter Comments, Continued
National Oceanic and Atmospheric Administration

Comment Number	Reported Comment	KPMG's Recommendation	KPMG Assessment of Current Status
01-10, 02-13	Accounting for Supplementary Stewardship Reporting Should be Strengthened	Initiate procedures to report performance outcomes and measures for its stewardship investments; ensure that the heritage asset inventory listing database is completed and kept up-to-date; and, ensure the accuracy of the compilation of stewardship reporting information.	Open (see comments in Exhibit B).
02-05	Accounting for Construction Work-in-Progress Should be Improved	Ensure that all adjustments necessary to the CWIP subsidiary ledger are properly identified on the detailed reconciliations and are explained in adequate detail. Reconcile the subsidiary and general ledger, timely. Reconcile all CWIP projects timely. Capitalize costs for the development and construction of satellite systems, as CWIP, when incurred, including estimating costs incurred by vendors, if necessary. Immediately notify the Budget and Finance Offices, in the event a CWIP project is terminated, or a design is abandoned. Ensure that all completed CWIP projects are properly removed from the CWIP records and added to the property accounts.	Open (see comments in Exhibit B).
02-10	Environmental Liability Policies Should be Documented	Develop a policy to address the recording of contingencies used in developing its environmental liability cost estimates.	Completed.

**U.S. Department of Commerce
Status of Prior Year Management Letter Comments, Continued
National Oceanic and Atmospheric Administration**

Key to Report References:

96-XX	KPMG's Management Letter, issued in conjunction with NOAA's September 30, 1996 financial statements.
99-XX	KPMG's Management Letter, issued in conjunction with NOAA's September 30, 1999 financial statements.
00-XX	KPMG's Management Letter, issued in conjunction with NOAA's September 30, 2000 financial statements.
01-XX	KPMG's Management Letter, issued in conjunction with NOAA's September 30, 2001 financial statements.
02-XX	KPMG's Management Letter, issued in conjunction with NOAA's September 30, 2002 financial statements.

**Department of Commerce
FY 2003 Management Letter Comments for the
National Institute of Standards and Technology**

Reconciliation of Personal Property Between the Subsidiary and the General Ledgers Needs to be Improved

During our test work over personal property additions, we noted that the National Institute of Standards and Technology (NIST) Accounting Division reconciles its personal property subsidiary ledger (i.e., its Oracle personal property data database) to the general ledger for the Working Capital Fund only. This reconciliation is not performed for non-Working Capital Fund personal property. As a result of this condition, the costs in the subsidiary ledger were overstated by approximately \$1.1 million. In response to our finding, management posted an adjustment entry to correct the subsidiary ledger balance.

Recommendation:

1. We recommend that NIST Accounting Division implement a policy that requires the reconciliation between the personal property subsidiary and general ledgers for all funds.

Reconciliation Differences with the Technology Administration's Fund Balance with Treasury Should be Resolved

We noted that the general ledger account balance of the Technology Administration's Fund Balance with Treasury, which is managed by NIST, exceeds the balance reported on the U.S. Treasury's SF-6653, *Undisbursed Appropriation Account Ledger*, by approximately \$2.4 million. This amount represent unfilled customer orders with advances that the Treasury's Federal Agencies' Centralized Trial-Balance System (FACTS II) does not recognize because it is related to expired years.

Recommendation:

2. We recommend that NIST, in conjunction with the Department of Commerce Office of Financial Management, contact the Department of Treasury to successfully resolve the issue with the Technology Administration's SF-6653, as soon as possible.

**U.S. Department of Commerce
Status of Prior Year Management Letter Comments
National Institute of Standards and Technology**

Comment Number	Reported Comment	KPMG's Recommendation	KPMG Assessment of Current Status
02-01	Monitoring over the NIST Grant Files Should be Improved.	Update the NIST grants manual to require review of grant files and follow up on missing documentation.	Completed.
02-02	Accounting for the National Telecommunications and Information Administration (NTIA) Grant Accruals Should be Improved.	NIST should follow existing review procedures.	Completed.
02-03	Accounting for Accounts Payable Should be Strengthened.	NIST should review all contracts that contain retainage clauses quarterly, and record the retainages.	Completed.
02-04	Capturing Construction-Related Costs Should be Improved.	NIST needs to develop training to ensure consistency and clarity in documenting and allocating non-capitalized costs to cost centers for real property activity.	Completed.

Key to Report References:

02-XX KPMG's Management Letter, issued in conjunction with the Department's September 30, 2002 consolidated financial statements.

**Department of Commerce
FY 2003 Management Letter Comments for the
National Institute of Standards and Technology Servicing Other Bureaus using the
Commerce Administrative Management System**

Reporting of Differences Noted in the Reconciliation of Fund Balance with Treasury Needs to be Improved

During our test work over the March 2003 Treasury SF-224, *Statement of Transactions*, we noted that NIST/CAMS Financial Services Group (FSG) reports the date when the difference was first reported on the FMS SF-6652, *Statement of Differences*, as a current month difference although the difference occurred in a prior month.

Recommendation:

1. We recommend that NIST/CAMS take proper action to ensure that FSG properly classifies differences on the SF-6652.

Management Review Controls Related to Signing and Dating the Treasury SF-224 Needs to be Improved

We noted that the SF-224, *Statements of Transactions*, for March and June 2003, related to Agency Location Code 13010011, were neither signed nor dated, as required by the Treasury Financial Manual.

Recommendation:

2. We recommend that FSG management implement a supervisory review to ensure that the SF-224 is signed and dated before submission to Treasury.

Reimbursable Agreement Amounts Should be Recorded as Unfilled Customer Orders, Timely

We noted that for 2 out of 15 reimbursable agreements tested, the FSG did not record the reimbursable agreement amount as an unfilled customer orders upon the agreement's execution.

Recommendations:

We recommend that:

3. The performing agency forward all reimbursable agreements to the FSG immediately after they are executed.
4. The FSG should monitor performing agencies to ensure that reimbursable agreements are received and recorded properly and timely.

**Department of Commerce
FY 2002 Management Letter Comments for the
National Institute of Standards and Technology Servicing Other Bureaus using the CAMS,
Continued**

Accounting for the Defaulted Loan Guarantee Liability Needs to be Improved

During our test work over subsidy estimates at the Emergency Loan Guarantee Program (ELGP), we noted that the defaulted loan in 2002 was not correctly accounted for in the loan guarantee liability account. The remaining balance in the liability account of approximately \$13.4 million should have been transferred to the credit program subsidy allowance account. An audit adjustment was recorded at September 30, 2003 for this matter.

Recommendation:

5. We recommend that the ELGP personnel review the guidance on recording defaulted loan guarantees and ensure that proper amounts are transferred to the credit program subsidy allowance account for future defaults.

Accounting for Subsidy Estimates Needs to be Improved

During our test work over subsidy estimates for ELGP, we noted that the original subsidy for the 2003 cohort was incorrectly calculated. ELGP applied the subsidy rate of 27.69 percent to the entire \$250,000,000 loan authorization amount and recorded a related subsidy of \$69,225,000. However, only \$144,500,000 of the loan was disbursed in FY 2003. The remaining \$105,500,000 is in an escrow account and will not be disbursed to the borrower until future years. Therefore, the subsidy rate should have been applied only to the \$144,500,000 amount disbursed, and the subsidy should have been calculated at \$40,012,050. An audit adjustment was recorded as of September 30, 2003 for this matter.

Recommendation:

6. We recommend that the ELGP personnel determine the loan disbursement amounts for future loan guarantee cohorts, and record a subsidy only on the amounts disbursed.

Accounting for Accruals Needs to be Improved

During our test work over undelivered orders, we noted that for 1 accrual estimate out of 5 tested, the program office did not include one unpaid invoice in the accrual estimate as of September 30, 2003. As a result of this condition, accrued expenses and operating expenses are understated by \$412,886 as of September 30, 2003.

**Department of Commerce
FY 2002 Management Letter Comments for the
National Institute of Standards and Technology Servicing Other Bureaus using the CAMS,
Continued**

Recommendation:

7. We recommend that the program office check and see if recently submitted invoices have been processed before preparing the accrual estimate. The program office should include any unpaid invoices in the accrual estimate in addition to the invoices they expect to receive related to the fiscal year for services provided.

U.S. Department of Commerce
Status of Prior Year Management Letter Comments
National Institute of Standards and Technology Servicing Other Bureaus using CAMS

Comment Number	Reported Comment	KPMG's Recommendation	KPMG Assessment of Current Status
02-01 and 02-02	Accounting for Accounts Payable and Undelivered Orders Should be Improved.	We recommend that NIS/CAMS bureaus take steps to better identify and estimate accruals and that the FSG ensure the proper matching of undelivered orders and accounts payable within CAMS, at the transaction level, and research and resolve legacy system conversion transactions.	Completed.
02-03 and 02-04	Security over Passwords for Federal Agencies' Centralized Trial-Balance System (FACTS) II Submissions Should be Improved.	FSG should not share security passwords among its employees and it should assign an individual within NIST to maintain and follow up on passwords issued by the Department of Treasury.	Completed.
02-05 and 02-06	Accounting for Internal Use Software Costs Should be Improved.	FSG should record or adjust, as appropriate, the internal use software, software in development, and accumulated amortization accounts, based on the "No. 10 Reports" and establish and strengthen its internal controls and procedures to allow for proper and timely recognition of related financial events.	Completed.

Key to Report References:

02-XX KPMG's Management Letter, issued in conjunction with the Department's September 30, 2002 consolidated financial statements.

**U.S. Department of Commerce
FY 2003 Management Letter Comments for the
Bureau of the Census**

Controls over Internal Use Software Should be Strengthened

During our test work over internal use software at the Bureau of the Census (Census), we noted that the related amortization expense was incorrectly recorded in CAMS for two items:

- For software totaling \$125,000, the completion date was recorded as of October 1, 2001 instead of July 1, 2002, resulting in overstatement of the amortization expense and accumulated depreciation balances in the amount of \$18,750.
- For software totaling approximately \$6 million, the first month of amortization was recorded as \$999,385.83 instead of \$99,938.58.

According to Census management, Census had already identified the \$99,938.58 item, noted above, prior to our request for the file for testing purposes.

Recommendation:

1. We recommend that the Census Finance Division review internal use software journal entries, including the amortization calculation and completion date, before recording this information in CAMS.

Controls over Accounting for Reimbursable Agreement Authority Should be Strengthened

During our test work over reimbursable agreements, we noted that one reimbursable agreement, project number 7247000, for approximately \$4.5 million was recorded after the period of performance, which commenced in April 2003 and ended on June 30, 2003. The transaction was recorded on July 1, 2003.

GAO's *Standards for Internal Control in the Federal Government* requires that "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded."

Recommendations:

We recommend that the Census Acquisition Division:

2. Adhere to their policy of recording all agreements in a tracking system.
3. Send a copy of the tracking report to all project managers and the Finance Division on a weekly basis.

**U.S. Department of Commerce
FY 2003 Management Letter Comments for the
Bureau of the Census, Continued**

4. Enforce the project managers' and Finance Division's accountability for the tracking report reviews to ensure sufficient follow-up with the customer and completeness of transactions recorded in the financial system.

Fund Balance with Treasury Reconciling Items Should be Adjusted to the General Ledger, Timely

During our test work over Fund Balance with Treasury, we noted that the Census Finance Division did not resolve a reconciling item on the September 30, 2003 Fund Balance with Treasury reconciliation within 90 days. Specifically, an item for approximately \$200,000 from the May 2003 *Statement of Differences* remained unresolved as of September 30, 2003.

According to the *Treasury Financial Manual Supplement to Volume I TFM 2-5100*, "When any prior month difference is identified and substantiated, properly adjust the General Ledger or Statement of Transactions/Accountability to clear the difference."

Recommendation:

5. We recommend that Census take steps to ensure that reconciling adjustments are promptly recorded in the general ledger.

Certain Manual Adjustments Need to be Resolved

During our test work over budget execution, we found that although Census made significant adjustments in the FACTS II system to pass the internal system edit checks, progress has been made in reducing the amount of unsupported adjustments. Specifically, numerous unsupported adjustments to various budgetary accounts, ranging from \$6 to \$49 million, were made to process the SF-133, Report on Budgetary Resources and Budget Execution.

In addition, we noted significant differences while reviewing Census' proprietary versus budgetary account balances analysis. In particular, the budgetary accounts for revenue were \$2.7 million greater than the related proprietary accounts, and the budgetary accounts for payables were approximately \$4.5 million greater than the related proprietary accounts.

Proper accounting practice as noted in the *Treasury Financial Manual* requires agreement of the above accounts.

Recommendations:

We recommend that Census:

6. Investigate and correct any transactions violating FACTS II account relationships and provide additional oversight in the area of budgetary accounting to prevent adjustments of this magnitude in the future.

**U.S. Department of Commerce
FY 2003 Management Letter Comments for the
Bureau of the Census, Continued**

7. Continue to research the known differences, correct the general ledger as needed, and periodically perform an analysis of budgetary versus proprietary accounts in FY 2004.

Management of Census' Working Capital Fund Needs Improvement

The purpose of the Census Working Capital Fund (WCF) is "for expenses and equipment necessary for the maintenance and operation of such services and projects as the Director of the Census Bureau determines may be performed more advantageously when centralized." The fund operates without fiscal year limitations. During our analysis of the WCF, we noted an issue that requires management's attention relating to maintaining a reasonable, but not excessive, equity reserve in that fund.

According to Census management, the WCF equity reserve should be about 5 percent of the fund's total expenses. The balance at September 30, 2003 was \$38.2 million. However, we believe that the basis of the reserve should be reimbursable expenses only (i.e., excluding imputed costs and WCF expenses). At September 30, 2003, the WCF's reimbursable expenses were \$477.2 million, 5 percent of which would equate to \$23.9 million. The difference of \$14.3 million represents a potential overstatement in the WCF's cumulative results of operations. Likewise, equity in the other Census funds is potentially understated.

The equity balances in the other Census funds are classified as either unexpended appropriations or cumulative results of operations. Reimbursable funds report only cumulative results of operations, and would not be affected by the potential overstatement in the WCF, described above. Therefore, an excessive or insufficient WCF equity reserve causes a misclassification of equity accounts for only the appropriated funds. We estimated that approximately 85% of the FY 2003 Census expenses were attributable to appropriated funds, based on the allocation of the FY 2003 WCF costs to other funds. Therefore, \$14.3 million times 85% or \$12.1 million of Census equity is misclassified.

We believe that the WCF has an excess reserve as of September 30, 2003. The overall effect on Census' equity balance is an overstatement of cumulative results of operations and an understatement of unexpended appropriations of approximately \$12 million.

Recommendation:

8. Census management needs to reconsider whether a 5 percent reserve is necessary for this fund, and ensure that the reserve is maintained at a consistent level.

Controls over Data Clean-up Should Continue

Although Census has made a significant effort to clean up data files for various accounts, including matters related to reimbursable agreements, continued progress is needed.

**U.S. Department of Commerce
FY 2003 Management Letter Comments for the
Bureau of the Census, Continued**

Specifically, we noted that the clean-up effort for reimbursable projects, listed below, did not correct a net overstatement in the unearned revenue account balance. Of the 13 samples reviewed in the amount of \$63 million, we found that:

Project	Difference Due to Error
7152011	\$ 2,087
7247000	(13,835)
7403000	(33,673)
7455000	1,579
7497000	242
	<hr/>
	<u>\$ (43,600)</u>

Recommendation:

We recommend that:

9. Census management continue reviewing accounts to clean up data files.

Census Aging Accounts Receivable Report Should be Improved

We noted that the Aging Accounts Receivable report was limited in its usefulness, due to the inability for the billing or unbilled amounts to be properly aged. With the Performance and Accountability Report accelerated due dates for FY 2004 and beyond, the generation of periodic and useful aging reports will be important for reviewing the data for accuracy.

Recommendation:

We recommend that:

10. The Office and Financial Management CAMS Support Center and the Census Finance Division develop the ability to easily age all receivable accounts.

**U.S. Department of Commerce
Status of Prior Year Management Letter Comments
Bureau of the Census**

Comment Number	Reported Comment	KPMG's Recommendation	KPMG Assessment of Current Status
02-01	Controls over Accounting for Reimbursable Agreement Authority Should be Strengthened	Continue to take steps to ensure that reimbursable agreement authority recorded is properly supported and the appropriate documentation kept in each project folder; and, enforce compliance with the internal guidance regarding carryover forms.	Completed.
02-02	Advances for Reimbursable Agreements Should be Liquidated Timely	Comply with its procedures regarding the monthly liquidation of "Advances from Others," and ensure that any adjustments posted after the CMC 927 report is run, are reviewed to determine whether a liquidation entry is necessary.	Completed.
02-03	Reimbursable Agreement Clearing Account Should not Contain Unsupportable Balances	Complete its clean-up effort, and write off any remaining balance in the clearing account.	Significantly Completed.

**U.S. Department of Commerce
Status of Prior Year Management Letter Comments
Bureau of the Census**

Comment Number	Reported Comment	KPMG's Recommendation	KPMG Assessment of Current Status
02-04	Management of Census' Working Capital Fund Needs Improvement	Analyze the financial statements of the WCF and develop, document, and implement a process for analyzing the equity reserve balances on at least a quarterly basis. As a part of this process, Census management needs to reconsider whether a 5 percent reserve is necessary for this fund, and ensure that the reserve is maintained at a consistent level.	Open (see comments in Exhibit E).
02-05	Fund Balance with Treasury Reconciling Items Should be Adjusted to the General Ledger in a Timely Manner	Take steps to ensure that reconciling adjustments are promptly recorded in the general ledger.	Open (see comments in Exhibit E).
02-06	Supporting Documentation Should be Maintained for Internal Use Software	The Census division chiefs, responsible for tracking internal use software expenses, ensure that supporting documentation is maintained, and that the Finance Division ensure that the costs being reported by the divisions are properly supported, prior to capitalizing those amounts in the property and equipment records.	Completed.

**U.S. Department of Commerce
Status of Prior Year Management Letter Comments
Bureau of the Census**

Comment Number	Reported Comment	KPMG's Recommendation	KPMG Assessment of Current Status
02-07	Telecommunications Costs Should be Obligated Prior to Disbursement	Review historical data related to payments for telecommunications services, to develop an estimate that can be used to establish obligations for these costs.	Completed.
02-08	Management Review is Needed to Prevent Budgetary Adjustments	Provide additional oversight in the area of budgetary accounting, to prevent adjustments of this magnitude in the future. Census' fiscal year 2002 corrective actions for the adjustments, described above, are appropriate.	Open (see comments in Exhibit E).
02-09	Automated Controls over Reimbursable Agreements Should be Strengthened	Implement a system control edit check to verify whether a project has authorized funding for a specific project and reject the transaction if no funding is authorized.	Completed.

Key to Report References:

02-XX KPMG's Management Letter, issued in conjunction with the Department's September 30, 2002 consolidated financial statements.

**Department of Commerce
FY 2003 Management Letter Comments for the
Economic Development Administration**

Accounting for Grant Advances and Documentation over the Economic Development Administration (EDA) Grant Files Should be Improved

EDA grant activities are conducted at regional offices in addition to the Washington, DC location. EDA Grants Officers are designated as the custodian of the official award file. However, the EDA Accounting Division is responsible for the financial and accounting duties related to the grants.

During our test work over EDA grant advances and grant payables, we noted the following:

- 1 instance out of 50 tested, where the original grant period had expired and there was no valid extension or closeout memo in either the official award file or in the EDA Accounting Department's grant file.
- 7 instances out of 50 tested where the original grant period had expired and there was not a time extension or closeout memo in the EDA Accounting Department's grant file.
- 1 advance payment totaling approximately \$26,000, was made to a grantee over one year ago and remains recorded as "Advances to Others."
- 2 instances where a grant accrual entry was entered using an unrelated grantee vendor number.

Recommendations:

We recommend that:

1. The Department of Commerce enhance its grants manual by requiring the Grant Officers to forward documentation on changes in grant status to the Accounting Department, because these changes affect both the obligated and undelivered orders balances.
2. EDA investigate the status of all undelivered orders and deobligate undelivered orders for expired grant awards with no proper extension document (CD-451, *Amendment to Financial Assistance Award*).
3. EDA expense grant advances older than 180 days directly through CAMS or through a topside adjustment, so that the grant expense on the financial statements is correctly stated.
4. EDA reverse the accruals entered under unrelated grantee vendor numbers and enter the grant accrual with a new vendor number set up solely for grant accruals.

**Department of Commerce
FY 2003 Management Letter Comments for the
Economic Development Administration, Continued**

Reconciliation of Fund Balance with Treasury Should be Improved

We noted that the general ledger balance of Fund Balance with Treasury for appropriation 13X2050, used in the reconciliation to the FMS SF-6653 as of September 30, 2003, does not agree to the amount reported in EDA's final trial balance. Also, the FMS SF-6653 balance used in the reconciliation does not agree to the amount actually reported by Treasury on the FMS SF-6653.

Recommendation:

5. We recommend that EDA reconcile the FMS SF-6653 to the general ledger using the final trial balance for the month and verify that the FMS SF-6653 balance used in the reconciliation agrees to the actual FMS SF-6653.

Accounting for Fund Balance with Treasury Should be Improved

We noted that EDA's suspense account 13F3875.20 had a credit balance of approximately \$1.1 million as of September 30, 2003, and is maintained in a manual log that is not posted to EDA's general ledger and is not reflected in the Department's consolidated financial statements. We also noted that EDA's Accounting Division does not analyze and clear this account, timely.

Recommendation:

6. We recommend that EDA record the transactions related to suspense account 13F3875.20 in the general ledger. In addition, we recommend that EDA implement proper procedures to ensure that this account is reconciled and cleaned on a monthly basis.

**U.S. Department of Commerce
Status of Prior Year Management Letter Comments
Economic Development Administration**

Comment Number	Reported Comment	KPMG's Recommendation	KPMG Assessment of Current Status
02-01, 02-02, 02-03, 02-04, and 02-05	Accounting for Grant Advances and Documentation over the EDA Grant Files Should be Improved.	<p>We recommend that the EDA:</p> <ul style="list-style-type: none"> – Review its grants manual, to develop clearer grant documentation requirements for extension dates. – Ensure that it maintains the close-out memorandums. – Set specific time periods for periodic reviews of grant expiration dates. – Perform a detailed review of the grant accruals. – Research all grant advances that are outstanding for more than one year, and expense those where the amount have likely been spent by the grantee. 	Partially open (see comments in Exhibit F.)
02-06	Reconciliation of Fund Balance with Treasury Should be Conducted in a Timely Manner.	We recommend that the EDA reconcile all of its Fund Balance with Treasury accounts, monthly.	Completed.

Key to Report References:

02-XX KPMG's Management Letter, issued in conjunction with the Department's September 30, 2002 consolidated financial statements.

**U.S. Department of Commerce
FY 2003 Management Letter Comments for the
International Trade Administration**

ITA Management Review of Time and Attendance Reports Should be Strengthened

We noted that the Time and Attendance report for pay period 21 for an ITA employee was signed by the supervisor but not dated. Also, the timekeeper could not find the above-mentioned Time and Attendance report in the employee's file when we initially requested it. The ITA accounting staff later performed a second search and was able to locate it.

Recommendations:

We recommend that:

1. ITA emphasize that Time and Attendance reports must be signed and dated by supervisors.
2. The timekeeper return time cards immediately after initialing them, to ensure that they are appropriately filed.

Approval of Time and Expense Reports at ITA's Foreign Commercial Service (FCS) in Paris, France Should be Improved

During our payroll test work at the Paris location, we noted five instances out of five different pay periods tested where time and expense reports for American officers were not approved by either the supervisor or the Chief of Mission.

Recommendation:

3. We recommend that FCS Paris, France ensure that all time and attendance reports are approved by a supervisor and that the Senior Commercial Officer's time and attendance is approved by the Chief of Mission or designee.

Reconciliation of Fund Balance with Treasury Should be Improved

We noted that ITA did not reconcile the differences totaling approximately \$20,000 for two annual funds within appropriation 13-1250 (1321250 and 1331250) that were reported in the FMS SF-6653 as of September 30, 2003. In May 2003, ITA's accounting service provider requested that Treasury close these two invalid Treasury symbols, because ITA never requested these symbols to be established. However, transactions recorded in these Treasury symbols are valid ITA transactions, that Treasury needs to move to in a valid Treasury symbol. According to ITA management, this matter was subsequently corrected.

Recommendation:

4. We recommend that ITA ensure that it has reconciled the FMS SF-6653 to the general ledger for all funds.

**U.S. Department of Commerce
FY 2003 Management Letter Comments for the
International Trade Administration, Continued**

Controls over Receipt of Goods at ITA's FCS in Paris, France Should be Strengthened

During our disbursement test work at the Paris location, we noted six instances where vendor's invoices were neither stamped as "received" by the FCS when the items were received nor was a receiving report prepared for these items to indicate the date that the items were received and accepted.

Recommendation:

5. We recommend that FCS Paris, France stamp invoices as "received" when items are received, and prepare and sign receiving reports before payment, in accordance with the *Overseas Financial Policies and Procedures Manual*.

**Department of Commerce
Status of Prior Year Management Letter Comments
International Trade Administration**

Comment Number	Reported Comment	KPMG's Recommendation	KPMG Assessment of Current Status
02-01	Foreign Service Nationals Accrued Severance Liability Accounting Should be Improved	ITA should calculate the voluntary separation pay liability for Ecuador based on the more conservative interpretation of the plan.	Completed.
02-02	Accounting for Prepaid Leases Should be Improved	ITA should verify exchange rate information, and thoroughly review the lease agreements to ensure prepaid lease amounts are properly recorded.	Completed.
02-03	Segregation of Duties for Collections at ITA's Foreign Commercial Service in Mexico City, Mexico Should be Improved	ITA should evaluate its operations to consider giving only one person, either the Commercial Specialist or the Collection Clerk, the ability to change participation agreement fees.	Completed.

Key to Report References:

02-XX KPMG's Management Letter, issued in conjunction with the Department's September 30, 2002 consolidated financial statements.